DEPARTMENT OF THE NAVY
“Re-Tuning the DON’s Internal Control Efforts”

ASMC PDI Conference
Navy/Marine Corps Service Day
2 June 2010

Agenda

- **FMO Reorganization**
- **The Future of MIC**
- **Entity-Level Controls (What they are and why should we use them)**
- **Monitoring (Separate Evaluations vs. Ongoing Monitoring)**
- **Automated Assessment Tool (iFiCCS)**

FMO Reorganization

Merging The Programs

Attain Auditability **Sustain Auditability**

Segment Assertion

The Future

FIP

A-123, Appendix A (ICOFR)

Assurance & Risk Management

iFiCCS

MIC

FMO Reorganization (The People)

- Separate Organization within FMO for “Assurance and Risk Management”

- Functions:

  - FMFIA Compilation and Reporting, including ICOFR
  - Inventory Control over Risks and Controls
  - Assist and Control the Standardized Testing of Internal Controls
  - Assist and Monitor Corrective Action
  - Own and Operate DON’s Automated Assessment Tool
  - Technology (IT) Risk Management
  - Audit Assistance and Management

The Future of MIC

What the MIC can leverage from ICOFR

- **Since OMB Circular A-123, Appendix A took effect in FY 2006, OUSD(C) has required specific deliverables in certain focus areas, to include:**
  - **Process flowcharts and narratives**
  - **Risk assessments**
  - **Control Analyses**
  - **Testing Plans and results**
  - **Reporting of deficiencies and corrective actions**
- **In short, OUSD(C) has implemented a fairly disciplined approach to documenting and testing a component's internal control environment and activities**

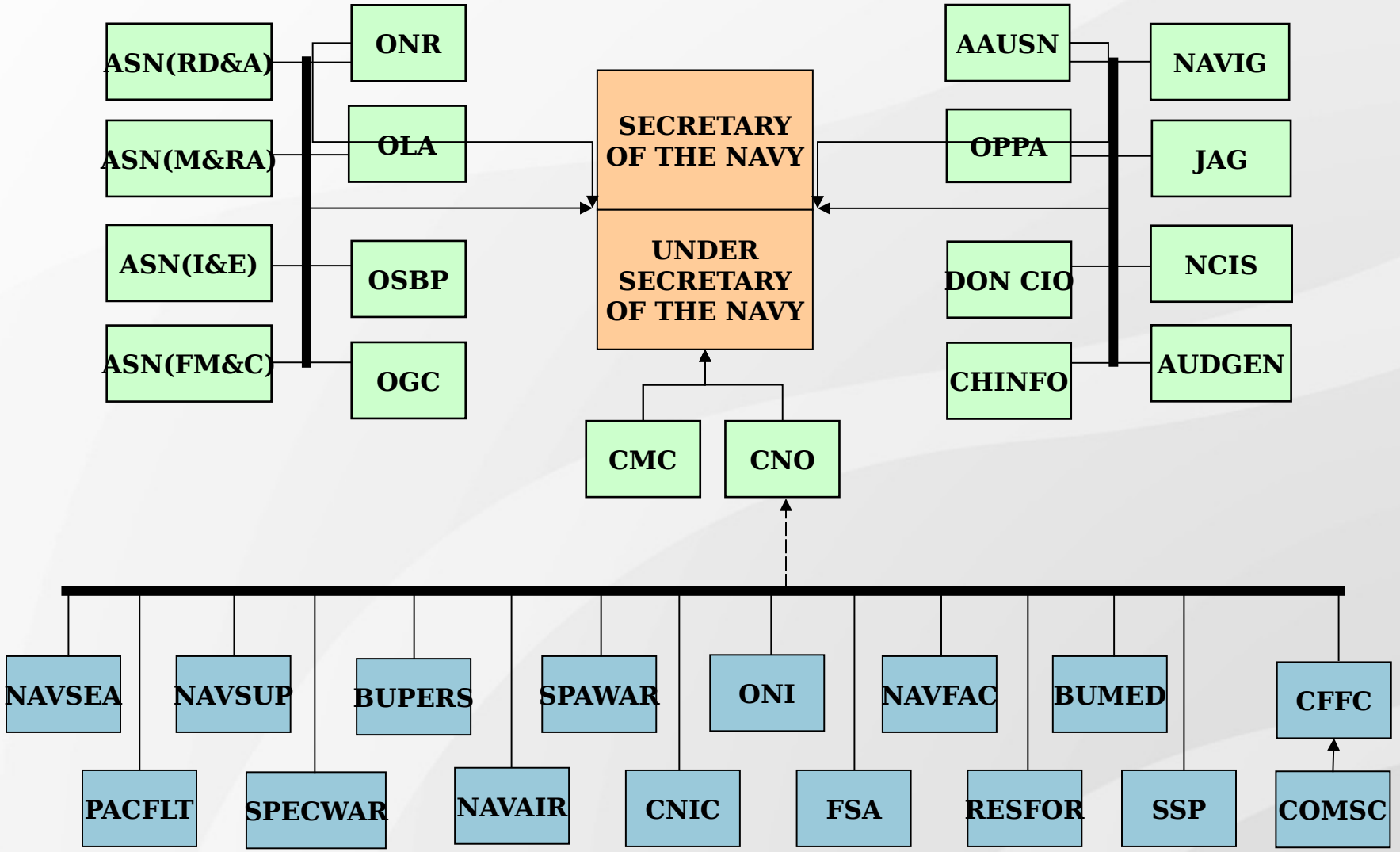
What the MIC can leverage from ICOFR

- **Of these, which has the DON MIC Program required?**
  - **Process flowcharts and narratives**
  - **Risk assessments**
  - **Control Analyses**
  - **Testing Plans and results**
  - **Reporting of deficiencies and corrective actions**
- **The DoD and DON MIC Programs are moving toward having similar documentation and testing requirements for both financial and non-financial controls.**

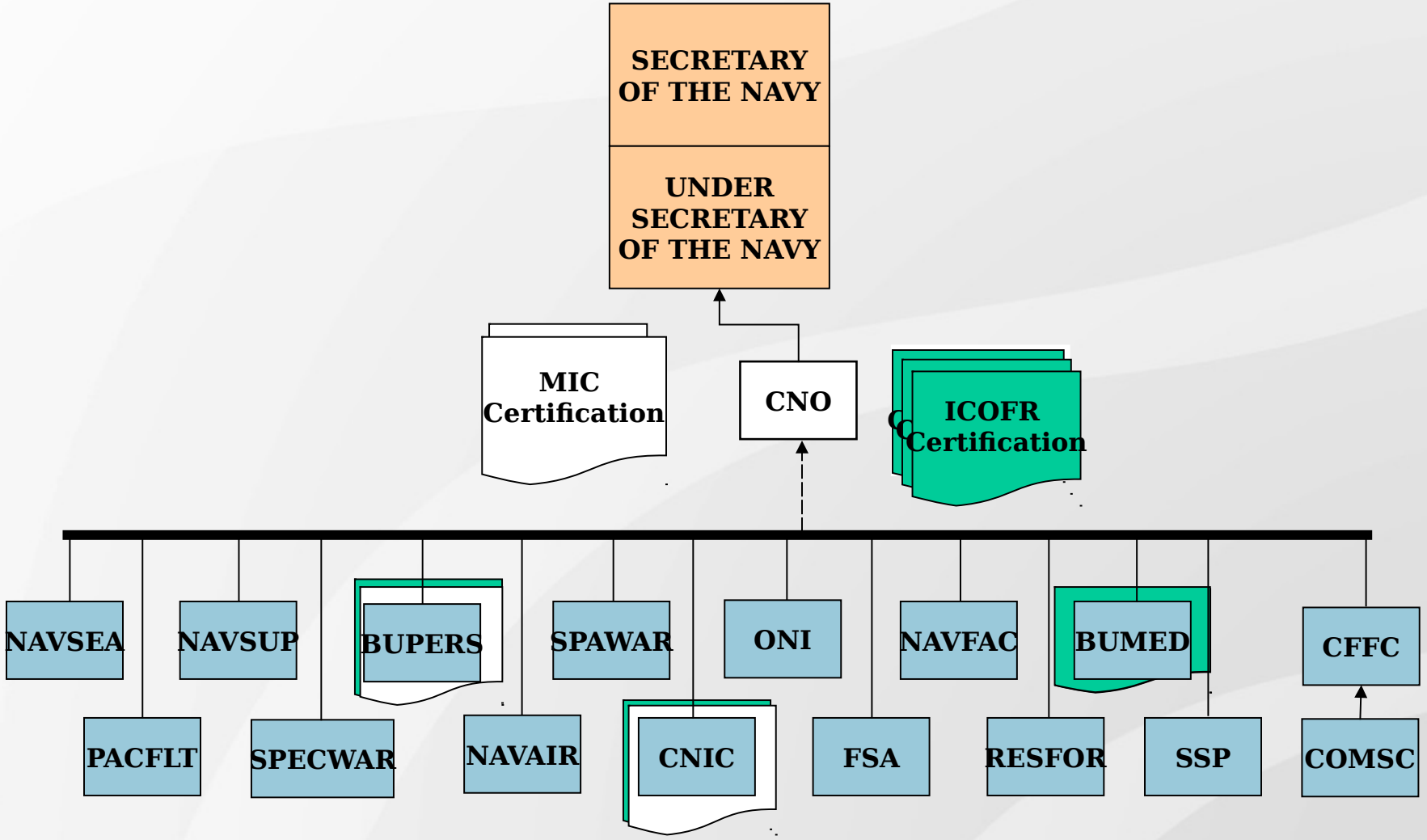
What ICOFR can leverage from the MIC

- **Certification and reporting of assurance over internal controls**
  - **DON MIC Program has a well-established structure for assessable units to report assurance over their internal controls**
- **Use of Auditor Identified Control Deficiencies**
  - **DON MIC Program has an established process for reviewing audit reports from the oversight community**
  - **Working on a process for incorporating financial reporting audits and formalizing feedback to commands**

DON MIC Program - Certification Statements



Proposed DON MIC Certification Statements will include certification over ICOFR



The Future of MIC

The DON MIC Program continues to evolve. In the future, you can expect that it will include:

- **Three-tiered testing of financial and non-financial processes and controls**
  - **Department-level testing**
  - **Command-level testing**
  - **External assessment and assurance**
- **Certifications on both non-financial and financial reporting internal controls**
- **Incorporation of "Internal Controls over Financial Systems"**

Entity-Level Controls

Entity-Level Controls

- **“The holy grail of risk assessment is finding controls that cover multiple risks ”**
- **Entity-Level vs. Transaction-Level**
  - **<u>Entity-Level:</u> Management Analysis of Payroll Expense**
  - **<u>Transaction-Level:</u> Supervisory Review and Approval**
- **“Entity” includes Department (DON) and Commands**

Entity-Level Controls

- **Types**
  - **Indirect Effect (Ethics, Code of Conduct, etc.)**
  - **Monitor Other Controls (Management Review of Metrics, Aging Reports, etc.)**
  - **Direct Effect (Management Analysis of Payroll Expense, Variance Analysis, etc.)**

Monitoring

Costs and Level of Effort to Assess Internal Control

Separate Evaluations

- Samples, Samples, Samples
- People, People, People

=

Ongoing Monitoring

- Continuous Awareness
- Fewer People

=

Monitoring

"An entity that perceives a need for frequent separate evaluations should focus on ways to enhance its ongoing monitoring activities, and, thereby, to emphasize 'building in' versus 'adding on' controls."

- COSO

In other words…

The key to sustainment is moving toward continuous monitoring. <u>Build in controls</u> that allow for continuous monitoring rather than <u>frequently testing controls</u> (i.e. selecting and reviewing samples).

Example: Ongoing Monitoring of Aged ULOs

- **Risk: Aged unliquidated obligations (ULOs) are no longer valid**

  - Close ULO within ___ days after end of period of performance. Use automated alerts and reports to facilitate closing ULOs.
  - Manager's review of ULO aging report.
  - Automated small balance write-off of aged ULOs.
  - Automated deobligation of ULOs when ___ days after end of period of performance. Use automated alerts prior to automated deobligation.
  - Review and certify ULOs (quarterly).
  - Agency and OCFO executive management review of ULO aging report(s) (scorecard)
  - OCFO statistical sample of aged ULOs

Automated Assessment Tool

Automated Assessment Tool

- **Integrated Financial Control and Compliance Solution (iFiCCS)**
- **Deploy DON-Wide for FIP/ICOFR and MIC**
- **Currently in contracting stage**
- **Owned and operated by the new organization (Assurance and Risk Management)**

Questions